AC

Road full of difficulties

AC's shares price fall by over 30% since the beginning of March due to the epidemic, reflecting potential logistic disturbances, lower demand for conversion on export markets (accounting for approx. 65% share of company's revenues) and accelerated pace of the slowdown in the automotive industry impacting kits for towbars segment. We expect that company's anti-cyclicality and peoples' need for savings will allow company to bounce its results back to the strong level expected by us in 1Q20. We also do not assume that AC will cancel its 2019 dividend (80% DPR), but only limit the payment. Therefore we maintain our coverage of AC with a BUY recommendation and lower our fair value from PLN 53.00 to PLN 40.80 per share, which implies 13% upside potential.

Demand for autogas systems likely to bounce back. We assume that ongoing slowdown will result in the bottom of results in 2Q2D0, after which we expect rebound of sales. Autogas systems are lowering transportation costs what makes them important for financially weaker customers and potentially will increase demand on the back of epidemic, particularly given peoples reluctance to public transport. Overall, we forecast "only" 5% y/y decline of revenues in 2020 to PLN 210.5m and 25% decrease of EBITDA y/y to PLN 43.3m due to higher wages costs (introduction of PPK program, minimal wage hike) and slight increase in raw material costs. We expect net income to arrive at PLN 25.0m (down 39% y/y) in 2020E.

Dividend likely to be maintained. We assume that the company will maintain its dividend policy given the end of its intensive CAPEX program and strong balance sheet but due to extremely difficult macro environment will trim half of this year payment. A quite conservative long-term 80% DPR should be maintained after 2020. Our assumption translates into DPS of PLN 1.5 in 2020E (4.2% DY) and PLN 2.0 (5.6% DY) in 2021E.

1Q20E results preview. We expect relatively strong result in 1Q20 stemming from restored sales on both Kazakh and Russian market, where locals gradually got used to new standards of car conversions. Excluding abovementioned laggers which burdened results in 4Q19 should allow achieving 34% better revenues on q/q basis in the sequential gas injection systems segment. We expect PLN 14.8m EBITDA in 1Q20 (down 17% y/y and up 57% q/q) and net income to arrive at PLN 11.2m (down 11% q/q and up 111% y/y) in 1Q20.

Relative valuation. Based on our forecasts, AC trades at 2020E P/E of 14.3x. This is a 17% premium to the median of peer multiples. On our forecasts, AC trades at 2020 EV/EBITDA of 8.2x with 20% premium to peers.

Figure 1. AC results summary

	2016	2017	2018	2019	2020E	2021E
Revenues (PLN m)	185	194	237	223	211	219
EBITDA (PLN m)	45	47	59	58	43	50
EBIT (PLN m)	37	39	50	46	31	37
Net profit (PLN m)	30	31	39	38	25	30
EPS (PLN)	3.06	3.11	3.95	3.87	2.51	2.96
DPS (PLN)	5.00	2.70	2.50	3.94	1.55	2.00
EV/EBITDA (x)	5.2	7.6	6.7	8.3	8.3	6.9
P/E (x)	7.5	11.5	10.1	12.1	14.1	11.9

Source: Company, IPOPEMA Research

Industrials

AC

BUY

FV PLN 40.80 from PLN 53.00

13% upside

Price as of 23 April 2020 PLN 36.00

Maintained

Share data

Number of shares (m)	10.0
Market cap (EUR m)	79.6
12M avg daily volume (k)	0.8
12M avg daily turnover (EUR m)	0.01
12M high/low (PLN)	49.4/34.2
WIG weight (%)	0.1
Reuters	ACGP.WA
Bloomberg	ACG PW

Total performance

1M	-5%
3M	-26%
12M	-28%

Shareholders

OFE PKO Bankowy	9.1%
WIM	7.6%
WASKULIT FIZ	7.1%
PZU TFI	4.9%
Dariusz Kowalczyk	5.5%
NN OFE	5.2%

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ACG

BUY FV PLN 40.80

Mkt Cap EUR 80m Upside +13%

Valuation multiples	2017	2018	2019	2020E	2021E
P/E (x)	11.5	10.1	12.1	14.1	11.9
EV/EBITDA (x)	7.6	6.7	8.3	8.3	6.9
EV/Sales (x)	1.9	1.7	2.2	1.7	1.6
P/BV (x)	3.7	3.5	4.0	2.8	2.6
FCF yield (%)	5.2%	5.9%	5.4%	6.1%	6.5%
DY (%)	7.3%	6.8%	10.6%	4.2%	5.4%

Per share	2017	2018	2019	2020E	2021E
No. of shares (m units)	9.9	9.9	9.9	10.0	10.0
EPS (PLN)	3.1	3.9	3.9	2.5	3.0
BVPS (PLN)	9.8	11.3	11.6	12.5	13.4
FCFPS (PLN)	2.9	3.3	3,1	2.6	2.8
DPS (PLN)	2.70	2.50	3.94	1.55	2.00

Change y/y (%)	2017	2018	2019	2020E	2021E
Revenues	5.2%	22.1%	-6.2%	-5.5%	4.1%
EBITDA	6.3%	24.4%	-1.9%	-25.1%	14.9%
EBITDA adj.	6.3%	24.4%	-1.9%	-25.1%	14.9%
EBIT	5.3%	25.8%	-6.6%	-32.8%	17.8%
Net profit	1.6%	27.1%	-2.1%	-34.6%	18.3%

Leverage/return	2017	2018	2019	2020E	2021E
Gross margin (%)	35.9%	37.0%	36.2%	33.4%	35.4%
EBITDA margin (%)	24.3%	24.8%	25.9%	20.5%	22.7%
EBIT margin (%)	20.3%	20.9%	20.8%	14.8%	16.7%
Net margin (%)	15.8%	16.4%	17.1%	11.9%	13.5%
Net debt / EBITDA (x)	0.14	-0.01	0.34	0.10	-0.16
Net debt / Equity (x)	0.1	0.0	0.2	0.0	-0.1
Net debt / Assets (x)	0.0	0.0	0.1	0.0	0.0
ROE (%)	31.8%	34.9%	33.3%	20.1%	22.1%
ROA (%)	20.4%	23.4%	21.8%	13.5%	16.1%
ROIC (%)	32.7%	42.7%	33.9%	21.4%	25.8%

Assumptions	2020E	2021E
Growth assumptions in LPG markets		
Poland	-15%	10%
Russia	-5%	5%
Ukraine	-5%	2%
South Korea	-5%	2%
Mexico	0%	5%
Kazakhstan	-5%	2%
Uzbekistan	0%	0%
Balkanian countries	2%	2%
Spain	10%	2%
Azerbaijan, Armenia	1%	0%
African countries	2%	5%
Brazil	-5%	-5%
Other countries	0%	0%

P&L (PLN m)	2016	2017	2018	2019	2020	2021
Revenues	184.9	194.4	237.4	222.7	210.5	219.3
COGS	119.0	124.6	149.5	142.0	140.3	141.7
Gross profit	**65.8**	**69.8**	**87.9**	**80.7**	**70.2**	**77.5**
Selling costs	16.8	18.8	22.7	20.2	21.6	22.6
G&A costs	13.5	13.4	15.7	16.4	17.6	18.3
Other operating income (cost) ne	1.9	1.8	0.1	2.2	0.0	0.0
EBITDA	**44.5**	**47.3**	**58.9**	**57.7**	**43.3**	**49.7**
EBITDA adj.	42.6	45.5	58.8	55.6	43.3	49.7
EBIT	**37.4**	**39.4**	**49.6**	**46.3**	**31.1**	**36.6**
Financial income (cost) net	0.3	-1.5	-1.1	0.2	0.1	0.3
Pre-tax profit	**37.7**	**37.9**	**48.4**	**46.5**	**31.2**	**36.9**
Income tax	7.5	7.2	9.4	8.3	6.2	7.4
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	**30.2**	**30.7**	**39.0**	**38.2**	**25.0**	**29.5**
Net profit adj.	30.2	30.7	39.0	38.2	25.0	29.5

BALANCE SHEET (PLN m)	2016	2017	2018	2019	2020	2021
Non-current assets	**71.8**	**73.8**	**89.9**	**101.6**	**101.6**	**99.4**
Goodwill and intangible assets	3.2	3.6	5.4	5.8	5.1	4.4
PP&E	63.1	65.1	79.8	92.0	92.7	91.2
Other non-current assets	5.5	5.0	4.7	3.8	3.8	3.8
Current assets	**59.3**	**76.3**	**76.5**	**73.2**	**84.0**	**84.0**
Inventories	36.8	34.9	50.6	50.8	48.0	48.1
Trade receivables	14.2	19.3	18.0	15.8	14.9	15.5
Cash and equivalents	3.3	17.7	4.7	2.4	16.8	16.1
Other current assets	5.1	4.4	3.2	4.3	4.3	4.3
Total assets	**131.1**	**150.1**	**166.4**	**174.8**	**185.5**	**183.4**
Equity	**89.9**	**96.4**	**111.8**	**114.7**	**124.3**	**133.8**
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**16.2**	**14.8**	**22.1**	**17.9**	**20.1**	**21.1**
Loans and borrowings	0.1	0.1	0.1	0.0	0.0	0.0
Other non-current liabilities	16.1	14.6	22.0	17.9	20.1	21.1
Current liabilities	**25.0**	**38.9**	**32.6**	**42.2**	**41.2**	**28.5**
Trade payables	10.7	6.3	14.4	8.2	7.7	8.1
Loans and borrowings	6.8	24.3	4.3	21.7	21.2	8.2
Other current liabilities	7.5	8.3	13.8	12.2	12.2	12.2
Equity & liabilities	**131.1**	**150.1**	**166.4**	**174.8**	**185.5**	**183.4**
Cash conversion cycle (days)	79	90	83	96	96	92
Gross debt (PLN m)	6.8	24.3	4.3	21.7	21.2	8.2
Net debt (PLN m)	**0.1**	**0.1**	**0.0**	**0.3**	**0.1**	**-0.2**

CASH FLOW (PLN m)	2016	2017	2018	2019	2020	2021
Operating cash flow	**37.3**	**31.5**	**50.7**	**41.6**	**44.4**	**46.3**
Net income	30.2	30.7	39.0	38.2	25.0	29.5
D&A	7.1	7.9	9.3	11.5	12.2	13.1
Minorities	0.0	1.0	2.0	3.0	4.0	5.0
Change in WC	-0.8	-5.8	-3.3	-3.8	3.2	-0.3
Other	0.8	-2.3	3.7	-7.3	0.1	-0.9
Investment cash flow	**-11.1**	**-9.1**	**-21.6**	**-23.5**	**-14.0**	**-14.0**
Change in intangibles and PP&E	-7.9	-10.3	-21.6	-23.7	-14.0	-14.0
Other	-3.1	1.2	0.1	0.2	0.0	0.0
Financial cash flow	**-40.7**	**-7.7**	**-42.4**	**-20.4**	**-15.9**	**-33.0**
Change in equity	0.3	0.2	0.9	0.9	0.0	0.0
Change in debt	6.8	17.5	0.0	17.4	0.0	0.0
Interest paid	0.0	-0.3	-0.3	-0.6	0.0	0.0
Dividend	-48.5	-26.2	-24.5	-38.9	-15.4	-20.0
Other	0.6	1.1	-18.5	0.8	-0.5	-13.0
Change in cash	**-14.5**	**14.8**	**-13.3**	**-2.4**	**14.4**	**-0.7**
Cash as of eop	**3.3**	**18.0**	**4.7**	**2.3**	**16.8**	**16.1**

Source: Company data, IPOPEMA Research

Contents

Autogas market outlook

Autogas system sales are considered to be ‘anticyclical’ - lowering transportation costs makes them important for financially weaker customers and gas installations increase the possibilities for operating vehicles when fuel availability is limited (due to their ability to drive on both types of fuel). Examples are solid - like the outbreak of the Donbas war in 2014 when AC sales in Ukraine were not negatively affected, or the global economic crisis in 2008 when the pace of sales growth was restored 3 months after the beginning of market turmoil. But will this dependence also hold true this time, when the depth of the crisis is unpredictable?

The share of revenues from exports has been increasing every year and has become the foundation for the company’s success. In 2018, approximately 66% of revenues came from exports, including 64% from European countries. In 2019 the proportion was similar – a 64% share of the company’s revenues stemmed from export markets. Thus, among the main risks we see are disturbances in global logistics, postponing orders in specific countries due to local regulations and generally lower demand in export markets. We assume that some recipients have already decided to move their orders in time even at the beginning of the epidemic and unfortunately these orders might be delayed for an indefinite period given long-term restrictions in many European countries. A risk that the value of orders will be reduced also cannot be excluded. Some clients which are the most affected by the epidemic may also require price reductions, which AC will likely have to accept.

As regards operations on site, the company has so far not been negatively affected by the coronavirus reality; thus, it is operating without interruptions besides a higher number of employee sick leaves, etc. We assume that AC’s inventories will allow it to produce at full capacity at least until the end of May.

As regards the accelerated pace of the slowdown in the automotive industry, we still do not see a significant threat for the crucial autogas segment due to the large number of sales in the aftermarket. In turn, Rameder’s sales should be impacted more than we previously assumed, as they are placed mostly to the OEM market.

Polish market

In our previous recommendation we assumed an increase in Autogas-fueled cars (albeit at a slowing pace), an ever-growing number of Autogas stations and the company's strong position would allow a further 1% CAGR in sales on the Polish market. Nowadays, we cannot expect that 2020 will be favourable for the results.

Significantly, all car service stations in larger cities were closed as of 1 April due to regulations introduced in the face of the coronavirus outbreak. According to our information, operations in smaller cities and villages were not disrupted to such an extent. In our base case scenario we assume that reopening will take place by the end of May at the latest. Thus 2Q20 should be hit heavily, after which we expect a strong rebound in conversions, particularly in poorer parts of the country and there, where the distance to the workplace is the longest. We assume that people will tend to convert the cheapest cars to resign from public transport on the back of the epidemic. It should allow them to lower transportation costs and secure their safety in case of any further restrictions.

Moreover, we emphasize that in Poland the PB95/LPG spread had been hovering around 3.0 in the second half of 2019. At the beginning of the epidemic, the spread was at the level of 2.8, while currently it has reached 2.2 - a very negative level in terms of the economic profitability of conversion. For example, according to our calculations, a change in the spread from 2.7 to 2.3 increases the break-even period for direct injection systems from 13 months to 18 months in our base-case scenario.

Figure 2. Sensitivity – payback period for direct/indirect injection systems in basic scenarios (months) on LPG/petrol spread (PLN)

	3.10	2.90	2.70	2.50	2.30
Direct injection systems	12	13	14	16	18
Indirect injection systems	7.5	8	9	11	12

Source: Company, IPOPEMA Research

We remind that the difference between PB95 and LPG has never fallen below 2.0, reaching its bottom at 2.07 in January 2015. Therefore, we assume that this year will be very difficult for LPG systems segment in Poland, resulting in 20% revenues decline vs 2019. This reflects our assumption that the growth the OEM market will be temporarily stopped, the number of Autogas stations will not growth in earlier assumed pace. We assume that reaching the 1% CAGR will be possible only since 2021E.

Figure 3. LPG/PB95/PB98 diesel prices in Poland (PLN/l)

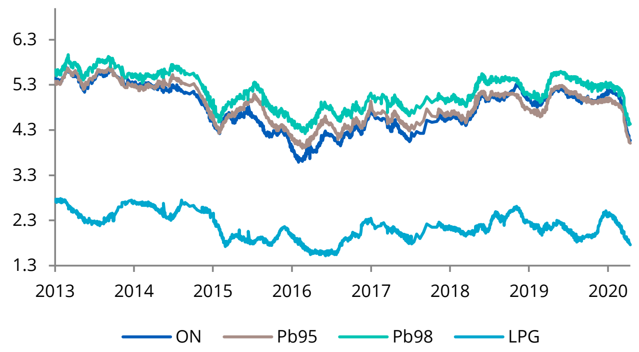
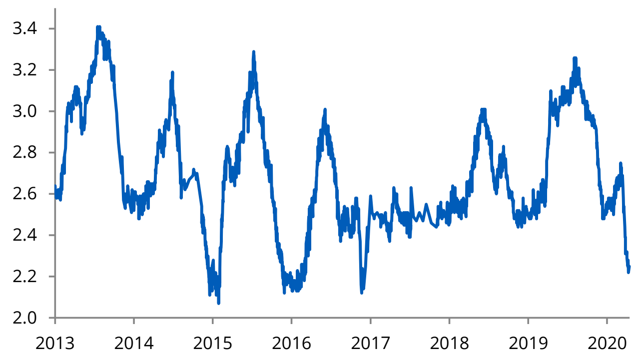


Figure 4. Spread between LPG and gasoline prices in Poland (PLN/l)



Source: Company, IPOPEMA Research

Foreign markets

The biggest question mark for AC in 2019 was **Russia**, where a new law on conversion to Autogas came into force and in our view burdened the results in recent quarters. New rules, regarding tests in accredited laboratories, were postponed until 17 July 2020 to properly prepare the relevant laboratories. According to our knowledge, the number of accredited laboratories is increasing and private diagnostic stations were allowed to accredit cars. Thus we do not expect a deeper slowdown in this market besides a 5% decrease in revenues vs 2019.

In the case of **Kazakhstan**, the company has witnessed some problems with the quality of LPG in recent weeks, but the problem seems to have been solved in 1Q20 and should not impact 2020 results. Therefore, we conservatively assume a 5% revenue decline over two consecutive years.

In turn, in **Ukraine,** the new regulations on vehicle homologations came into force, which may slightly complicate conversions. Fortunately the change will be related only to some of the car stations. We expect no growth vs 2% growth assumed earlier by us.

The only logistical problem the company has so far witnessed is in **Albania**, but its share in company revenues is negligible. Due to the large distance potentially causing logistical problems and slowdown in the automotive market, we forecast a 5% decline in revenues y/y in **South Korea** and no growth in Mexico.

We do not assume that serious problems related to COVID-19 in **Italy** will strengthen AC's position in the European market. The strongest competitors have big inventories and do not strictly follow rules related to the epidemic. We assume a 10% increase in mechanical parts sales in the **Spanish** market due to the fact that the local competitors have had to limit their production.

Figure 5. Summary of changes in estimates regarding growth assumptions in AC's markets (%)

	Current 2020E	Previous 2020E	Current 2021E	Previous 2021E	Current 2022E	Previous 2022E	Current 2023E	Previous 2023E	Current residual	Previous residual
Poland	-15%	1%	10%	1%	1%	1%	1%	1%	1%	1%
Russia	-5%	-5%	5%	7%	2%	5%	2%	5%	2%	5%
Ukraine	-5%	2%	2%	2%	2%	2%	2%	2%	0%	0%
South Korea	-5%	1%	2%	2%	2%	2%	2%	2%	2%	2%
Mexico	0%	5%	5%	3%	5%	0%	5%	0%	5%	0%
Kazakhstan	-5%	0%	2%	0%	2%	2%	2%	2%	2%	2%
Uzbekistan	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Balkanian countries	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Spain	10%	5%	2%	2%	2%	2%	2%	2%	2%	2%
Azerbaijan, Armenia	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%
African countries	2%	10%	5%	5%	5%	5%	5%	5%	5%	5%
Brazil	-5%	-5%	-5%	-5%	0%	0%	0%	0%	0%	0%
Other countries	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Company, IPOPEMA Research

Other segments

Due to the ongoing slowdown in the automotive industry, which is stronger than we had previously expected, we foresee no entries into new markets in 2020. In our previous forecast we had assumed increased order volumes, especially on the back of the successful entry of distribution companies into the Swedish market. Currently we suppose that the company will try to maintain flat results in the segment, driven mainly by a lack of new market entries and an end to the slowdown in the automotive industry.

Moreover, in our view, the German company **Rameder** in particular will suffer the most among AC's clients from the slowdown in the automotive industry and the difficult situation in that country. It is the only entity among AC's clients that sells its products mostly to the primary market (with some exceptions).

In **other products** we assume that most changes are also related to the situation on the primary market and this year growth should be limited. For example, AC recently reported termination of its cooperation with an electrical harness recipient who started production in a related company and eventually closed the electric car production project. This loss should be offset by increased sales of electric harnesses for Lavazza coffee machines, which in our view should gain popularity during the epidemic.

Margins likely to shrink

We assume that in such a demanding environment, AC will not be able maintain its EBIT margin at the level above 20%, which is the main reason we point to an approximate 7% increase in **SG&A** costs caused by the introduction of the PPK program and a minimal wage hike.

As regards **COGS**, we believe that the company will struggle with a slight increase in some raw material costs, but on the other hand, some petroleum-based products should decline in price. In addition, the company will automate production of some components, thus lowering the cost of purchase and mitigating the risk of delays in delivery, as many parts were imported from Italy.

Moreover, due to the expectation of fewer orders in recent and coming weeks, we assume that the company will not fully use its capacities after finishing its two-year investment program. According to the company's earlier estimates, the investment should increase AC's production capacity for LPG systems and towbar kits by approx. 25% y/y in 2020 (majority of it has been already utilized in 2H19). Given the ongoing epidemic turmoil, we assume that the investment will help cut costs more than expanding capacities in the environment of unsure demand. The main goal should be limiting overtime, supporting automatization and prospects for limiting employment in the LPG/CNG systems' segment, thus easing pressure of wage increases in 2020 and eliminating the risk of needing to pay rent for warehouses.

Overall, in our view, potential savings will not offset higher wages, but result in shrinking EBIT margin from 21% in 2019 to 14% in 2020.

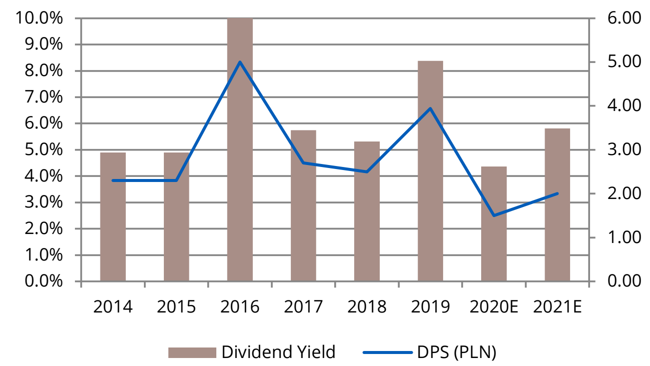
Potential dividend warning ahead

AC is just completing its two-year investment program; so far it has commenced a new injection hall for plastics and tool-houses. By the end of 1Q20, AC will have completed the modernization and expansion of its production halls, warehouses and administrative parts. Thus, we assume that this year **CAPEX** should exceed depreciation by PLN 1m and will be close to the maintenance levels in ensuing years.

We assume that the company will maintain its dividend policy given the end of its intensive CAPEX program, but due to the extremely difficult macro environment, will trim half of this year's payment. A quite conservative long-term 80% DPR should be maintained only after 2020, when the macro environment stabilizes. Our assumption translates into **DPS of PLN 1.5 in 2020E (4.0% DY) and PLN 2.0 (5.8% DY) in 2021E**.

We also assume that launching a new incentive program for managers in such an environment is marked by a big question mark, so we do not include any new share overhang in our calculations.

Figure 6. AC's DPS and DY in 2014-2021E (PLN/%)



Source: Company, IPOPEMA Research

Figure 7. AC's incentive scheme

Year	Goal from incentive scheme	EBITDA	% diff
2014	43.2	36.9	-15%
2015	51.8	41.7	-20%
2016	43.0	44.5	4%
2017	46.0	47.3	3%
2018	50.6	58.9	16%
2019	55.6	57.7	4%

1Q20E results preview

On 1 April 2020 AC published preliminary 1Q20 revenues which amounted to PLN 62.4m (1.5% lower y/y). In our view the results showed that the COVID-19 impact was not strong in the first quarter. Benefits resulting from the automatization process partially offset the negative impact of the epidemic, and finally, we perceive PLN 62.4m revenues as not disappointing in the current macro environment.

Sequential gas injection systems. We expect 2% lower revenues y/y in the sequential gas injection system segment, amounting to PLN 50.5m. In our view, this positive result stems from restored sales in the Kazakh market, where the company witnessed a limited number of orders in 4Q19 due to deterioration of the natural gas quality, thus a decreased need for conversions. We assume that sales in the Russian market are gaining momentum and locals have become accustomed to new standards of car conversions. Excluding the abovementioned stocks observed in 4Q19 should allow the achievement of 34% better results on a q/q basis in the segment.

Kits for the towing hook segment will most likely not prove to be a positive surprise, driven mainly by a lack of new market entries and the ongoing slowdown in the automotive industry. We expect flat results y/y in this segment.

EBITDA. We expect PLN 14.8m EBITDA in 4Q19 (down 17% y/y and up 57% q/q).

Net profit. We expect AC's net income to arrive at PLN 11.0m (down 11% q/q and up 111% y/y) in 4Q19.

Margins. On our forecasts, AC's margin will shrink in 1Q20 compared to 1Q19. We expect a 23.7% EBITDA margin vs 28.3% a year ago primarily due to deterioration in the product structure and a lower share of mechanical parts which are being sold at higher margins.

Figure 8. AC 1Q20E results preview

(PLN m)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19E	3Q19	4Q19	1Q20E	*yoy*	*qoq*
Revenues (prel.))	59.1	67.6	58.0	52.8	63.5	57.5	55.2	46.5	62.4	*-2%*	*34%*
Sequential gas injection systems	45.5	54.1	46.2	39.6	51.3	46.0	43.3	37.1	50.5	*-2%*	*36%*
Vacuum LPG systems	1.4	1.1	0.9	0.9	1.2	0.9	1.2	0.7	1.1	*-2%*	*69%*
Kits for towing hooks	5.8	6.1	5.8	6.3	4.5	5.2	7.6	4.3	4.4	*-2%*	*3%*
Other products and services	3.0	2.6	2.2	3.2	3.1	2.2	2.2	1.8	3.1	*-2%*	*76%*
Trade goods and materials	3.5	3.8	3.1	2.9	3.4	3.2	3.2	2.8	3.3	*-2%*	*19%*
Gross profit	20.4	25.4	22.0	20.1	23.7	20.4	20.0	16.5	22.2	*-7%*	*35%*
EBITDA	**14.8**	**18.1**	**14.6**	**11.3**	**17.9**	**14.6**	**15.8**	**9.4**	**14.8**	*-17%*	***57%***
EBIT	12.7	15.9	12.3	8.7	15.2	11.8	12.9	6.4	12.5	*-17%*	*96%*
Net profit	10.4	12.6	9.5	6.5	12.4	9.4	11.1	5.3	11.0	*-10%*	*111%*
EBITDA margin	25.1%	26.8%	25.2%	21.4%	28.3%	25.3%	28.6%	20.3%	23.7%	*-4.5pp*	*3.5pp*
EBIT margin	21.5%	23.5%	21.2%	16.5%	23.9%	20.5%	23.4%	13.7%	20.1%	*-3.9pp*	*6.3pp*
Net margin	17.6%	18.6%	16.4%	12.3%	19.5%	16.3%	20.2%	11.4%	17.6%	*-1.6pp*	*6.5pp*

Source: Company, IPOPEMA Research

ESG

Environment. Installation of modern gas installations offered by AC, by using alternative fuel, contributes to reducing harmful gas and dust emissions to the atmosphere, and thus to improving the conditions of the natural environment. The company's activity has no significant impact on the quality of air, water, or soil, nor does it emit noise and electromagnetic fields. AC S.A. bears fees for using the environment, and cooperates with a recovery organization. In recent years, there were no exceedances in areas defined by permits and no direct nuisance was caused to the local community.

Only in 2019 did AC take several steps to be more environmentally-friendly, for example through reduction of its electricity consumption in the field of lighting by replacing fluorescent lamps with LED lighting, developing rules, a monitoring program and monitoring the results of activities related to reducing paper consumption and introducing the principle of municipal waste segregation in all organizational units of the company.

Social responsibility. AC decided to establish the AC Foundation at the end of April 2011. The foundation's primary goal is to conduct Occupational Therapy Workshops for people with disabilities. At the beginning of 2019, the sponsorship policy was formalized and placed on the company's website. An example of sponsoring actions are: support of the passion of workshop with employees, sponsorship of the Ekstraklasa football team - Jagiellonia Białystok, care for young talents and sponsorship of Motoheart activities, as well as co-financing of the WOW Winter Orchestra Workshop for young promising musical talents. Another noteworthy activity is the creation of the STAG LPG Cup class during the Bialystok Automobile Championships and a social campaign entitled: I am a Safe Driver, which promotes road safety.

Governance. AC presents transparent and continuous communications with its employees and shareholders. The CEO and the vice-CEO (CFO) have been involved in company operations from the very beginning. Both of them hold more than 1% share in the company's share capital. The company holds regular meeting with investors, and the board is ready to answer shareholders' questions.

AC's accountability is established and communicated clearly, ensuring that sustainability is integrated with other business goals. The company used to set its EBITDA goals for the two coming years and share it with investors, which helps to assess effectiveness of the company's operations. The managerial options program is based on set goals, so bonuses are directly related to the company's results. Since the company is listed on the WSE, it has presented a transparent dividend policy with 80% DPR.

All in all, we maintain a positive opinion on AC's environmental and social responsibility, and corporate governance involvement.

Valuation summary

We value AC via two methods, applying a 50% weight to our DCF-based valuation and a 50% weight to our DDM-based valuation.

Based on our forecasts, we arrive at a fair value of 40.8 PLN per share, which is above the current market price and implies a BUY recommendation.

Figure 9. AC valuation summary

AC, valuation summary	
I Method: DCF	
Fair Value (PLN per share)	41.4
Weight	50%
II Method: DDM	
Fair Value (PLN per share)	40.2
Weight	50%
Fair Value (PLN per share)	**40.8**

Source: Company, IPOPEMA Research

Discounted cash flow model

Our assumptions for cost of equity were established by using a variable risk-free rate (equal to the 12-month forward interest rate) and adding a 5.0% equity risk premium in each year. At the same time, we consistently use an unleveraged beta of 1 so as not to distort the WACC and comparability of our valuations. We use tax rate of 19% based on tax payments of recent years.

We assume flat FX rates in our model, with EUR/PLN at 4.30.

Figure 7. AC DCF 2020E-2024E valuation

DCF (PLN m)	2020E	2021E	2022E	2023E	2024E	Terminal Year
Revenue Growth Rate	-5.5%	4.1%	1.7%	1.8%	1.7%	1.0%
Revenues	211	219	223	227	231	235
Gross margin	33%	35%	36%	36%	37%	
SG&A costs	39	41	43	45	47	
EBIT	31	37	37	38	38	40
EBIT margin	15%	17%	17%	17%	16%	17%
Effective Tax Rate	20%	20%	20%	20%	20%	20%
NOPAT	25	29	30	30	30	32
+ Depreciation	12	13	14	13	14	14
EBITDA	43	50	51	51	52	54
- Capex	-14	-14	-14	-14	-14	-14
- Change in WC	3	0	-1	-1	-1	-1
FCF	26	28	29	29	29	31
Terminal Value						471
WACC	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Present Value of FCF	25	25	24	22	21	312

NPV FCF	117
+ Present Value of Terminal Value	312
Operating Assets of the Firm =	428
+ Value of Cash	2
Value of Firm =	431
- Value of Outstanding Debt =	-22
- Dividend =	0
Value of Equity =	409
Number of shares (m)	10
Fair Value of Equity per share (PLN)	41.4

Key Assumptions	
Revenue CAGR 2020E-2024E	2.3%
Average EBIT margin in 2020E-2024E	16.2%
Market Risk Premium	5.0%
Beta	1.00
Growth in residual period	1.0%
Average WACC in 2020E-2024E	7.6%

Source: IPOPEMA Research

Changing the WACC or terminal growth rate by +/- 0.5pp, our DCF valuation moves by roughly +/- 6% in both cases.

Figure 10. Sensitivity – AC DCF valuation on WACC in perpetuity and terminal growth rate

DCF Sensitivity (PLN per share)

		WACC in perpetuity						
		9.0%	8.5%	8.0%	7.5%	7.0%	6.5%	6.0%
Terminal Growth	0.5%	34.0	35.5	37.2	39.2	41.4	44.1	47.2
	1%	35.5	37.2	39.2	41.4	44.0	47.2	50.9
	1.5%	37.2	39.1	41.4	44.0	47.2	50.9	55.5

Source: Company, IPOPEMA Research

DDM valuation

We assume that the company will maintain its dividend policy given the end of its intensive CAPEX program and strong balance sheet but due to extremely difficult macro environment will trim half of this year payment. A quite conservative long-term 68% DPR should be maintained after 2020. Our assumption translates into DPS of PLN 1.5 in 2020E (4.2% DY) and PLN 2.0 (5.6% DY) in 2021E.

In the DDM model, we applied the same assumptions as in the DCF model with regards to cost of capital and unlevered beta.

Figure 9: AC DDM 2020E-2024E valuation

AC: DDM		2020E	2021E	2022E	2023E	2024E	Terminal Year
DPS (PLN)		1.5	2.0	2.4	2.4	2.4	2.9
Risk free rate		2.5%	2.5%	2.5%	2.5%	2.5%	
Equity premium risk		5.0%	5.0%	5.0%	5.0%	5.0%	
Unlevered beta		1.00	1.00	1.00	1.00	1.00	
Levered beta		1.05	1.02	1.02	1.02	1.02	
Cost of Equity		7.7%	7.6%	7.6%	7.6%	7.6%	
Discount multiple		0.95	0.88	0.82	0.76	0.71	
Discounted DPS (PLN)		1.5	1.8	1.9	1.8	1.7	
Sum of discounted DPS in forecast period (PLN)	8.7						
Terminal growth							1.0%
Terminal Cost of Equity							7.6%
Present value of terminal value (PLN)							31.5
Fair Value (PLN ps)							40.2

Source: IPOPEMA Research

Relative valuation

Based on our forecasts, AC trades at 2020E P/E of 14.3x. This is a 17% premium to the median of peer multiples. On our forecasts, AC trades at 2020 EV/EBITDA of 8.2x, 20%premium to peers.

Figure 10: AC relative valuation 2020E-2022E

COMPANY	Last price	Market Cap	P/E			EV/EBITDA			DY	ND/EBITDA	NI CAGR	EBITDA CAGR	EBITDA margin
		EUR m	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2020E	2020-22E	2020-22E	2020E
LANDI RENZO SPA	EUR 0.4	46	na	16.9	7.0	4.4	2.8	2.6	1.0%	0.3	*na*	*na*	10.5%
SOGEFI	EUR 0.9	110	14.1	12.5	10.8	8.0	7.4	na	0.0%	0.2	*na*	*31.8%*	8.3%
GLOBAL PMX CO LTD	TWD 131.5	33,251	11.8	7.8	na	na	na	na	5.1%	0.2	*14.2%*	*10.7%*	26.4%
ALTRA INDUSTRIAL MOTION COF	USD 19.0	1,143	12.2	11.5	na	7.1	6.7	na	3.6%	na	*na*	*na*	18.2%
ALUMETAL SA	PLN 37.0	126	12.3	22.8	12.8	6.2	7.6	6.3	5.4%	0.0	*na*	*na*	6.4%
BORYSZEW SA	PLN 3.7	194	10.7	9.8	na	6.9	6.6	na	0.0%	0.3	*-2.0%*	*-2.6%*	6.4%
MEDIAN			**12.2**	**12.0**	**10.8**	**6.9**	**6.7**	**4.5**	**2.3%**	**0.2**	**6.1%**	**10.7%**	**9.4%**
AC	36.0	83	14.3	12.1	12.0	8.2	7.2	7.0	4.3%	0.0	*9.3%*	*8.6%*	20.5%
premium/discount to all peers (median)			*17%*	*1%*	*10%*	*20%*	*8%*	*57%*					
Implied Price (PLN)			**30.6**	**35.6**	**32.4**	**29.8**	**33.2**	**22.9**					

Source: IPOPEMA Research

Changes in estimates

Figure 11. Changes in estimates

PLNm	2020E New	2020E Old	Diff. %	2021E New	2021E Old	Diff. %	2022E New	2022E Old	Diff. %
Sales	210.5	273.8	-23.1%	219.3	278.5	-21.3%	222.9	282.7	-21.1%
EBITDA	43.3	62.9	-31.2%	49.7	64.2	-22.6%	51.1	65.3	-21.8%
Net profit	25.0	41.70	-40.1%	29.54	42.6	-30.7%	29.8	42.90	-30.4%

Source: Company, IPOPEMA Research

Financials

Figure 12. AC P&L account 2016-2024E

Income statement (PLN m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Revenues	**185**	**194**	**237**	**223**	**211**	**219**	**223**	**227**	**231**
y/y change (%)		*5%*	*22%*	*-6%*	*-5%*	*4%*	*2%*	*2%*	*2%*
Costs of goods sold	119	125	149	142	140	142	143	145	146
Gross profit	**66**	**70**	**88**	**81**	**70**	**78**	**80**	**82**	**85**
Selling and marketing costs	17	19	23	20	22	23	24	25	26
Administrative costs	13	13	16	16	18	18	19	20	21
Other operating income/costs	2	2	0	2	0	0	0	0	0
EBIT	**37**	**39**	**50**	**46**	**31**	**37**	**37**	**38**	**38**
y/y change (%)		*5%*	*26%*	*-7%*	*-33%*	*18%*	*1%*	*2%*	*1%*
EBITDA	**45**	**47**	**59**	**58**	**43**	**50**	**51**	**51**	**52**
y/y change (%)		*6%*	*24%*	*-2%*	*-25%*	*15%*	*3%*	*0%*	*2%*
Financial income / cost	0	-1	-1	0	0	0	0	0	0
Pretax profit	**38**	**38**	**48**	**46**	**31**	**37**	**37**	**38**	**38**
Income tax	8	7	9	8	6	7	7	8	8
Net income	**30**	**31**	**39**	**38**	**25**	**30**	**30**	**30**	**31**
EPS (PLN)	**3.06**	**3.11**	**3.95**	**3.87**	**2.51**	**2.96**	**2.99**	**3.05**	**3.08**

Profitability ratios	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Gross margin	35.6%	35.9%	37.0%	36.2%	33.4%	35.4%	35.8%	36.3%	36.7%
EBITDA margin	24.1%	24.3%	24.8%	25.9%	20.5%	22.7%	22.9%	22.5%	22.6%
EBIT margin	20.2%	20.3%	20.9%	20.8%	14.8%	16.7%	16.6%	16.6%	16.4%
Net margin	16.3%	15.8%	16.4%	17.1%	11.9%	13.5%	13.4%	13.4%	13.3%
ROE	33.6%	31.8%	34.9%	33.3%	20.1%	22.1%	21.3%	20.7%	20.0%

Source: Company, IPOPEMA Research

Figure 13. AC balance sheet 2016-2024E

Balance sheet (PLN m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Total current assets	**59**	**76**	**77**	**73**	**84**	**84**	**95**	**106**	**116**
Inventory	37	35	51	51	48	48	49	50	51
Receivables	14	19	18	16	15	16	16	16	16
Cash and equivalents	3	18	5	2	17	16	26	35	45
Other current assets	5	4	3	4	4	4	4	4	4
Total non-current assets	**72**	**74**	**90**	**102**	**102**	**99**	**97**	**94**	**92**
Property, plant and equipment	63	65	80	92	93	91	89	87	85
Intangible assets	3	4	5	6	5	4	4	3	3
Other non-current assets	6	5	5	4	4	4	4	4	4
Total assets	131	150	166	175	186	183	191	200	208
Stockholders` equity	**90**	**96**	**112**	**115**	**124**	**134**	**140**	**147**	**153**
Total non-current liabilities	**16**	**33**	**13**	**30**	**29**	**16**	**16**	**16**	**16**
Other non-current liabilities	16	33	13	30	29	16	16	16	16
Total current liabilities	**21**	**14**	**27**	**22**	**24**	**25**	**27**	**29**	**30**
Trade and other payables	11	6	14	8	8	8	8	8	8
Loans and borrowings	7	24	4	22	21	8	8	8	8
Other current liabilities	4	-17	8	-8	-5	9	10	12	13

Total equity & liabilities	131	150	166	175	186	183	191	200	208
BVPS (PLN)	9	10	11	12	12	13	14	15	15
Net debt	3	7	0	19	4	-8	-18	-27	-37
Net debt / EBITDA	0.1x	0.1x	0.0x	0.3x	0.1x	-0.2x	-0.3x	-0.5x	-0.7x
Balance sheet ratios	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Current ratio	2.8	5.4	2.8	3.3	3.5	3.3	3.5	3.7	3.9
Quick ratio	1.1	3.0	1.0	1.0	1.5	1.4	1.7	1.9	2.2
Debt / assets	5%	16%	3%	12%	11%	4%	4%	4%	4%
Debt / equity	8%	25%	4%	19%	17%	6%	6%	6%	5%

Source: Company, IPOPEMA Research

Figure 14. AC cash flow 2016-2024E

Cash flow (PLN m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Net income	30	31	39	38	25	30	30	30	31
Depreciation and amortisation	7	8	9	11	12	13	14	13	14
Other (incl. WC change)	0	-7	2	-8	7	4	3	3	3
Operating cash flows	**37**	**32**	**51**	**42**	**44**	**46**	**47**	**47**	**48**
Capital expenditures	-8	-10	-22	-24	-14	-14	-14	-14	-14
Other	-3	1	0	0	0	0	0	0	0
Investing cash flows	**-11**	**-9**	**-22**	**-24**	**-14**	**-14**	**-14**	**-14**	**-14**
Change in debt	7	17	-20	17	-1	-13	0	0	0
Dividends paid	-48	-26	-24	-39	-15	-20	-24	-24	-24
Other	1	1	2	1	0	0	0	0	0
Financing cash flows	**-41**	**-8**	**-42**	**-20**	**-16**	**-33**	**-24**	**-24**	**-24**
Beginning cash	18	3	18	5	2	17	16	26	35
Increase / decrease in cash	-15	15	-13	-2	14	-1	10	9	9
Ending cash	**3**	**18**	**5**	**2**	**17**	**16**	**26**	**35**	**45**
DPS (PLN)	5.0	2.7	2.5	3.9	1.5	2.0	2.4	2.4	2.4

Source: Company, IPOPEMA Research

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NII – Net interest income – interest income minus interest expense.
Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.
LLP – loan loss provisions – an expense set aside as an allowance for bad loans.
NPL – non-performing loan – loans that are in default or close to be in default.
Cost/Income – operating expenses divided by total banking revenue.
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.
ROA – return on assets – net income (or adjusted net income) divided by the average assets.
EBIT – earnings before interests and tax.
EBITDA – earnings before interests, tax, depreciation and amortization.
EPS – earnings per share – the net income (or adjusted net income divided by the number of shares outstanding.
P/E – price to earnings ratio – price divided by earnings per share.
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.
CAGR – compound annual growth rate.
BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.
P/BV – price to book value - price divided by the BVPS.
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.
DY – dividend yield – dividend of a given year divided by the current price.
DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.
FV – Fair Value, calculated based on valuation methods outlined in the document.

The author of this document has no conflict of interest with the company that is the subject of this document.

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When applying ratings for companies following criteria are used with regards to the difference between IPOPEMA's FV and company's price at the date of recommendation:

Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (January 1 –March, 2020)	Number	%

Buy	2	29%
Hold	1	14%
Sell	4	57%
Total	7	100%

Rating History – AC

02/08/2019	BUY	PLN 53.0	PLN 46.6	Piotr Jusiński